

Ynon Gablinger
Distribution Policy
Ofgem
9 Millbank
London
SW1P 3GE

4 July 2011

Dear Ynon,

Electricity distribution charging methodologies: DNOs' proposals for the higher voltages

EDF Energy is one of the UK's largest energy companies. We provide 50% of the UK's low carbon generation. Our interests include nuclear, coal and gas-fired electricity generation, renewables, combined heat and power plants, and energy supply to end users. We have over 5 million electricity and gas customer accounts in the UK, including both residential and business users.

We are happy for this letter to be published on the Ofgem website.

EDF Energy welcomes the opportunity to respond to this consultation. The key points of our response relate to three main areas.

1. Predictability and stability

Without predictable and stable charges we are exposed, as a Supplier, to the risk of cost volatility. To avoid having to charge our customers an additional premium to cover this risk we need DUoS charges to be predictable and stable, with reasonable advance notice of any changes.

Any additional costs that are allocated to the CDCM pot will also increase volatility and the risk to both suppliers and customers.

2. Cost reflectivity

While we agree that site specific methodology is more appropriate for allocating network costs to customers we are concerned that the proportion of costs allocated to customers through scaling is still relatively high.

The proposed EDCM methodology, while aiming to be cost reflective for network users, also allows new users on the network to materially impact current user's charges. The EDCM methodology is required to be cost reflective for users of the network, therefore the impact on existing customers of other users joining the network should be minimal.

3. Transparency of the methodology and models going forward

Transparency of the EDCM is vital to stakeholders in order for both customers and stakeholders to understand the charges, and the volatility implied within them. To enable transparency it is important that the EDCM models are published by the distribution network operators.

The following Appendix 1 details our response, where appropriate, to the consultation questions. I hope you find these comments useful, however if you wish to discuss this response further please contact either of my colleagues Simon Vicary (simon.vicary@edfenergy.com 0203 126 2168) or Julia Haughey (julia.haughey@edfenergy.com 0203 126 2167).

Yours sincerely,

A handwritten signature in blue ink that reads "Paul Delamare".

Paul Delamare
Head of Regulation

Appendix 1

CHAPTER: One - There are no questions for this chapter

CHAPTER: Two

Question 2.1: What are your views on the key issues with the methodology we have highlighted? Are there any other issues or concerns with the methodology as a whole that we should consider?

The main objectives of the EDCM methodology as set out in the consultation are that it should:

- reflect the costs (or benefits) imposed by users on the network, including the future costs (or benefits) that arise from current behaviour, so as to encourage efficient use of the network and therefore lower overall costs
- be transparent in terms of how charges are calculated, to enable customers to understand their change
- facilitate competition, for example between suppliers and licensed distribution network operators (LDNOs)
- respond to and facilitate developments in the network, such as the increasing connection of distributed generation, which helps to support the objective of sustainable development

Transparency of the EDCM is vital to stakeholders, but to enable transparency the methodology and the models must be published.

Scaling is still a high proportion of the final charges to customers in nearly every area. The residual scaling ranges from 56.4% to 0.2% with an average of 37.3%. While we agree that site specific methodology is more appropriate for allocating these costs to customers we are concerned that the proportion of costs allocated to customers through scaling is still relatively high.

The consultation is on the EDCM methodology but the changes to the customers that fall in this category will still have a material impact on the customers in CDCM. In every area, except one, the CDCM revenue pot goes up which increases volatility for both Suppliers and customers.

The proposed EDCM methodology, while aiming to be cost reflective for network users, also allows new users on the network to materially impact current user's charges. It does not seem appropriate that a customer could have a relatively low marginal charge one year, where the need for reinforcement is considerably delayed, and then the following year a new customer connects to the network and the charges are increased, due to the reinforcement being brought forward. We are not convinced this is cost reflective and would like to see more evidence to prove that it is.

Question 2.2: Should we approve the methodology, do you agree with our proposal to implement it in full from 1 April 2012? If not, why is phasing-in charges or delaying implementation appropriate?

As stated in our letter of 24th June 2011. A full implementation from 1 April 2012 will give distribution network users clear signals to ensure efficient use of the existing infrastructure and to contain the amount of new investment that customers ultimately have to pay for. Any attempt to phase the implementation will remove these clear signals and rewards, being unfair to those customers who would have to cross subsidise others.

We are keen to see network maintenance costs and the funding of new investment allocated fairly across different customers. It is important that appropriate rewards are available for network users who manage their demand or generation patterns to reduce the use of the network at peak times.

Therefore, EDF Energy supports the full implementation on the planned date of 1 April 2012.

CHAPTER: Three

Question 3.1: Do you agree with our assessment that the approach for the revenue target is reasonable?

The proposed methodology increases the revenue pot to CDCM customers in every area except one. With the introduction of this methodology an additional £41.3m will be recovered from CDCM customers and this amount is expected to increase year on year.

Despite this being considered a small impact we are concerned that CDCM customers continue to be impacted by changes to the EDCM models. Changes to network assets will impact the CDCM Revenue pot in future years increasing the volatility of the CDCM charges.

Question 3.2: Do you think the principle the maximum import capacity is a cost driver at the voltage of connection is reasonable for charging purposes?

It appears to be a reasonable principle.

Question 3.3: Do you agree with our view that reactive power flows should be incorporated as part of the capacity that attracts indirect costs and 20 per cent of the residual?

Yes.

Question 3.4: Is it appropriate to consider the specific assets the customer uses for the calculation of the customer's charge, or would it be more appropriate to consider only the voltage levels the customer uses for the calculation of its charges?

The charging methodology has been developed to be site specific to ensure cost reflective charging. If it was only to consider the voltage level then this would reduce the cost reflectivity of the methodology.

Question 3.5: Do you think that the 'spare capacity' issue we identify should be addressed?

Spare capacity could be a result of an under utilised network. Regardless of whether this is due to customer behaviour or the network operators design the cost and maintenance has to be recovered.

Question 3.6: Do you think notional asset values should take into account assets below the customer's voltage of connection?

The charging methodology should ensure cost reflective charging for the use of the distribution network. We are not convinced that the assets below the customer's voltage of connection are related to this.

Question 3.7: Are there any other demand specific issues that you think we should consider as part of our decision?

We have not identified any other issues.

CHAPTER: Four

Question 4.1: Do you agree with our proposal to modify the generation revenue target in order to avoid double charging for operations and maintenance costs on sole use assets? This issue aside, do you agree with our view that the approach to calculating a generation revenue target is reasonable?

Yes, it is sensible to avoid double counting.

Question 4.2: Do you agree with our assessment that the approach to scaling is reasonable?

The "fixed adder" does not add any locational signals but preserves the locational signals from the LRIC and FCP methodology.

Question 4.3: Do you think it is appropriate for only units exported by non-intermittent generators during the super-red time band to be eligible for credits?

Yes. Non-intermittent generation exporting during the super-red time band reduces the need for network reinforcement.

Question 4.4: Do you agree with our proposal that intermittent DG should be eligible for credits as they are deemed to provide network benefits under ER P2/6? If they do become eligible for credits, should the credits only relate to units exported during the super-red time band or is a single credit rate to all units exported more appropriate?

It is appropriate to encourage distributed generation by giving them credits for the benefit they bring to the network. However, it seems inappropriate to give these credits for periods other than the super-red time band, as is the case for non-intermittent generation.

Question 4.5: On import charges for generation dominated mixed import-export:

- **Do you agree with our suggested alternative to using the collar of the network use factor for the calculation of the import tariff?**
- **Do you think that the methodology is appropriate for demand customers connected to generation dominated assets?**

No comment

Question 4.6: Are there any other generation specific issues that you think we should consider as part of our decision?

In 6 out of 14 areas the scaling is negative to bring the revenues for generation in the EDCM back to the target revenues. This raises the question as to whether the target revenue has been correctly set.

CHAPTER: Five

Question 5.1: Do you agree when calculating LDNO charges that DNO costs upstream and downstream of the point of connection should be considered?

No comment

Question 5.2: Do you think that DNOs should provide LDNOs with a discount on all non-asset based charges?

This seems reasonable if it is cost reflective and transparent.

Question 5.3: Do you think that varying LDNO discounts only with the point of connection will better achieve a balance between reflecting upstream and downstream costs?

No comment

Question 5.4: Do you agree that it may be appropriate in some circumstances for the DNO to pay LDNOs use of system credits?

It does not seem reasonable for a DNO to pay an LDNO system credits. It would be more appropriate for this to be capped at 100%.

CHAPTER: Six

Question 6.1: Do you think sole use assets should attract scaling 'costs' to the same extent as shared assets? Does the charging rate on sole use assets seem reasonable given the nature of these assets?

Sole use assets should attract scaling costs to the same extent that they contribute to the costs.

Question 6.2: Do you agree with our view that the arrangements for demand and generation side management agreements are appropriate? Do you think such agreements should be available to all customers?

While we understand the benefit to the network of DSM and GSM it is hard to see how this will fit in a with a Suppliers contract. The question is unclear as to which contract will take priority and what information will be available for billing purposes.

Question 6.3: Do you agree with our assessment that an explicit reactive power charge is not appropriate?

No comment

Question 6.4: On the proposal for sense checking branch incremental costs in LRIC:

- **Do you agree with our view that positive cost recovery (i.e. charges) and negative cost recovery (i.e. credits) should be considered separately?**
- **Do you consider that recovery from demand customers and recovery from generation customers should be considered separately?**

The consideration of demand and generation separately is preferable as it should reduce the level of capping.

Question 6.5: Do you think the EDCM should include a mechanism to mitigate the potential volatility from network use factors? We welcome views on measures to mitigate volatility and help customers manage volatility.

One of the most volatile parts of the methodology will be driven by the NUF's. A mechanism to reduce this volatility would be helpful to both customers and stakeholders. A three year average is used for some of the inputs to the CDCM and would appear to be a reasonable approach.

Any measures to help customers manage volatility will be helpful. A range of products would allow customers to take different levels of risk.

EDF Energy
July 2011